

# **Report of the auditor-general to the Free State Legislature and the council on the Metsimaholo Local Municipality**

## **Report on the financial statements**

### **Introduction**

1. I have audited the financial statements of the Metsimaholo Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act , 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Metsimaholo Local Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

## **Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Restatement of corresponding figures**

8. As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during 2016 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

### **Irregular expenditure**

9. As disclosed in note 48 to the financial statements, the municipality incurred irregular expenditure of R 25 703 162 (2015: R48 211 291) during the year under review mainly due to non-compliance with supply chain management requirements.

### **Unauthorised expenditure**

10. As disclosed in note 45 to the financial statements, an unauthorised expenditure amounting to R19 380 908 (2015: R77 901 967) was incurred by the municipality. This is a result of overspending by the financial services.

### **Material impairments**

11. As disclosed in note 5 to the financial statements, a provision for the impairment of debtors amounting to R137 241 524 (2015: R121 760 402) had been made with regard to irrecoverable receivables from non-exchange transactions. In addition, as disclosed in note 6 to the financial statements, a provision for impairment of debtors amounting to R522 427 485 (2015: R430 760 556) has been made with regard to irrecoverable receivables from exchange transactions.

### **Going concern**

12. As disclosed in note 44 to the financial statements indicate that the municipality has unfavourable indicators in respect of current assets and current liabilities. These conditions indicate the existence of an uncertainty that may cast doubt on the municipality's ability to operate as a going concern.

## **Additional matters**

13. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Unaudited supplementary information**

14. The appropriation statement set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited this statement and, accordingly, I do not express an opinion on it.

## Unaudited disclosure notes

15. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## Report on other legal and regulatory requirements

16. In accordance with the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for the selected key performance areas presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## Predetermined objectives

17. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected key performance area presented in the annual performance report of the municipality for the year ended 30 June 2016:
  - Key performance area (KPA)1: Basic service delivery and infrastructural development on pages xx to xx
18. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned key performance area. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. The material findings in respect of the selected key performance area is as follows:

## **KPA 1 Service delivery and infrastructural development**

### Reliability of reported performance information

21. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for the reported achievements against planned targets of 43.8% of indicators.

## **Additional matter**

22. I draw attention to the following matter:

### **Achievement of planned targets**

23. Refer to the annual performance report on page(s) x to x and x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the reliability of the reported performance information for the selected key performance area reported in paragraph 21 of this report.

## **Compliance with legislation**

24. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

### **Annual financial statements**

25. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of property, plant and equipment, irregular expenditure and commitments disclosure identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

### **Procurement and contract management**

26. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by Supply Chain Management (SCM) regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

27. Contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.

28. Thresholds for local content on designated sectors' procurement were not properly applied in accordance with the requirements of Preferential Procurement Regulation 9.

### **Expenditure management**

29. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA.

30. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

31. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

## **Internal control**

32. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

## **Leadership**

33. Leadership did not effectively monitor and enforce corrective action plans to address weaknesses in the processes of financial and performance reporting that were reported in the previous financial year. As a result, the significant findings reported previously were repeated and again required material adjustments to be effected to the financial statements and resulted in unreliable performance information.

## **Financial and performance management**

34. The municipality lacks internal policies and procedures as well as personnel with relevant skills and experience pertaining to the management and reporting on performance information within certain directorates. This resulted that daily and monthly controls pertaining to information management were compromised and insufficient reviews were performed to ensure the reliability of the information that is used in reporting.

35. Insufficient coordination between directorates, inadequate procurement planning as well as a lack of processes and controls to ensure compliance with supply chain management requirements resulted in the occurrence of unauthorised, fruitless and wasteful and irregular expenditure.

*Auditor-General*  
Bloemfontein

30 November 2016



*Auditing to build public confidence*

